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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003273

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SUBJECT: MA OPTIMISTIC ON DEFENSE BUDGET, PUBLIC ORDER

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

¶1. (C) Summary: Taipei Mayor and Kuomintang (KMT) Chairman Ma Ying-jeou told AIT Director that the KMT leadership and Legislative Yuan (LY) caucus had reached consensus to support the purchase of P-3C antisub aircraft and PAC-2 missile upgrades, and to fund a submarine feasibility study (in the 2006 supplemental budget). The KMT also supports increasing overall defense spending to 2.85 percent of GDP, but will not consider PAC-3 missiles until next year's defense budget. With regard to the "Depose Chen" demonstrations, Ma is confident that good communication with protest leaders and a well-prepared police force will minimize protest-related violence during upcoming "Double Ten" National Day celebrations in Taipei. The KMT will not support a no-confidence vote against Premier Su because the legal underpinnings for potential snap LY elections are not yet in place. However, the KMT will back a second attempt to recall President Chen because, Ma argued, the people are entitled to express their political will through a national referendum on Chen's presidency. End Summary.

Upbeat on Defense

¶2. (C) Director Young and Deputy Director Wang met with Taipei Mayor and KMT Chairman Ma Ying-jeou and his defense advisor Su Chi on September 21. The Director informed Ma that he would be returning to Washington for consultations soon, and stressed that Washington decision-makers would be interested to hear about Ma's leadership on the arms procurement and defense budget issues. Ma responded that the KMT leadership had reached a "strong consensus" to resolve the defense budget question during this LY session.

¶3. (C) According to Ma, the KMT LY caucus understands that PAC-2 upgrades are improvements to an existing missile defense system, and not new missiles "banned" by the failed March 2004 missile defense referendum. Ma said a few "deep-blue" caucus members still oppose the PAC-2 upgrades, but, on the whole, the KMT caucus is "willing to be convinced" of the need for them. To that end, the KMT has requested the Ministry of National Defense (MND) to provide a detailed explanation as to why the upgrades are needed. This will help Ma and other moderates in the party silence deep-blue objections, and help LY members justify the expense to their constituents. Ma said the MND is not skilled at

public relations, but acknowledged recent efforts by Defense Minister Lee Jye and others to better educate the LY and the public. The Director urged Ma and Su to help the MND convince LY members and the public of the need to improve Taiwan's defense posture.

¶4. (C) The KMT, however, will not approve the purchase of new PAC-3 missile batteries until the fall of next year, to honor the results of the March 2004 missile defense referendum, Ma stated. Regardless of the legal significance of the missile defense referendum, the Director responded, the conclusion by U.S. defense experts that Taiwan needs upgraded missile defenses has been validated by the Japanese decision to install their own PAC-3 based system. In light of prolonged procurement times, the Director continued, Taiwan should put the PAC-3 purchase on a "fast track" as soon as possible. Ma responded that KMT LY President Wang Jin-pyng had informed him that LY budgetary rules precluded consideration of the PAC-3s during the FY 2007 budget cycle; thus, the earliest the LY could revisit the issue would be September 2007. The Director urged Ma to act sooner instead of later, and to think of the missile defense posture that Ma himself would like to inherit if he were to become the next president.

¶5. (C) Ma told the Director that the KMT legislative caucus also supported funding the purchase of P-3C antisubmarine (ASW) aircraft, as well as the proposal for an NT\$200 million (US\$6 million) study to determine whether Taiwan needs submarines, and if so, what kind. (Note: This item is included in the 2006 supplemental defense budget. End note.) Ma added the caveat that the "submarine feasibility study" should not be seen as a commitment by Taiwan to buy submarines in the future. Ma said the party caucus had debated the issue extensively, and some members had expressed

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concern over whether the USG fully supported a submarine program for Taiwan. The Director responded that the decision was one that Taiwan needed to make on its own.

¶6. (C) The KMT is not opposed to increasing Taiwan's defense budget to 2.85 percent of GDP, but reaching that level could be difficult, Ma explained. KMT LY member and defense policy advisor Su Chi noted the MND defense budget will satisfy the 2.85 percent threshold only if the LY fully funds every MND budget request. Since the KMT will push to cut all funding for the PAC-3 missiles this budget cycle, and the larger LY may cut proposed spending on other items, the final budget may fall short of the 2.85 percent mark. Su said he had anticipated this problem, and during January 2006 meetings with Defense Minister Lee Jye, he had suggested replacing the PAC-3s with other less controversial items that could pass legislative muster. The Director remarked that it would not serve Taiwan's interests for the MND to preemptively redact items from the budget that it deemed necessary to Taiwan's defense. The 2.85 percent spending level is an important symbolic step toward Taiwan reaching the 3 percent mark next year, and the US hope is that Taiwan will use the defense budget process to re-allocate unspent money to maintain the 2.85 percent spending level. The Director reminded Ma that aside from high-profile new weapons systems, Taiwan must also invest in critical infrastructure, facilities hardening, communications systems, and munitions reserves. Ma responded that if big-ticket items are cut, the MND can always submit a "supplemental budget" request later, to increase funding for other already-funded projects, in an effort to reach the requisite 2.85 percent mark.

Confident on Domestic Order

¶7. (C) Ma shrugged off public criticism that he was "weak" for failing to take a stronger stand in favor of Shih Ming-te's "Depose Chen" movement. As Taipei Mayor, he said he is committed to providing an open forum for both "green" and "red" protesters to express themselves, as long as such

protests remain peaceful and continue to operate within the law. Ma said the Taipei city government has established "many" direct contacts within both pro- and anti-Chen camps, and is working closely with Taipei police authorities.

Protests permits are reviewed on a daily basis to discourage violence. Ma expressed utmost confidence in the judgment of the Taipei Police Chief and the ability of his police force to maintain public order during upcoming protest activities.

¶8. (C) At present, the Ketagalan Square in front of the Presidential Palace will remain the site of the October 10 "National Day" celebrations, unless the Police Chief decides a change is necessary, Ma said. Although the "National Day" celebration grounds will be open to the public, protest activities will not be permitted there, though they might be allowed on the perimeter. Ma stressed that protesters must honor not only the letter but the spirit of the protest law, which does not allow for impromptu protests in the midst of "National Day" observances.

Second Recall Attempt?

¶9. (C) Ma ruled out for the time being any KMT push for a no-confidence vote against Premier Su. The districts for the new, smaller LY have not been redrawn, and the laws to govern the next LY election have not yet been passed. Thus, if President Chen were to dissolve the LY following Su's ouster, the subsequent snap LY election could be chaotic, which the KMT would prefer to avoid. Ma said the KMT might pursue a second attempt to recall President Chen, since a recall may be the only way to "give the people a chance to express their opinion" and to "get Shih Ming-te off the streets." Ma said his earlier call to DPP legislators to propose their own recall bill was designed to ensure their participation in the recall process this time. (Comment: If the DPP LY caucus continues to block a recall as expected, Ma can blame them for preventing the public from deciding Chen's fate by referendum. End commen.) If Chen survives a public referendum, Ma explained, he will be immune from further recalls for the remainder of his term. This could also

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enable Shih Ming-te to back down with honor, he added, since the people would have had their say.

¶10. (C) Aside from the street protests and the LY, Chen must also face the judicial-prosecutorial process, Ma said. A sitting president is immune from prosecution, but not from investigation, and if Chen or his wife are personally implicated, DPP leaders may abandon him. If prosecutors conclude there was no wrongdoing, the Director asked, would that resolve the crisis, or would anti-Chen forces continue to pursue the president in the LY and the streets? Ma said it was hard to imagine how prosecutors could exonerate Chen, since he had already admitted to asking the first lady to collect receipts for his "secret diplomatic fund." Ma added that by urging Chen to retain counsel before questioning, prosecutors had telegraphed the possibility that Chen was a possible target for indictment. The Director commented that if Taiwan's judicial system found no wrongdoing, but the people refused to accept that conclusion, the rule of law would be undermined. As a lawyer himself, Ma had to recognize the implications of this.

¶11. (C) In closing, the Director stressed to Ma that passage of a responsible defense budget was essential to maintaining a positive U.S.-Taiwan bilateral relationship, and would improve chances for future U.S.-Taiwan military cooperation. Ma confirmed his commitment to break through partisan politics to reach a reasonable defense budget this LY session, and added that he would honor all of the promises he made to the United States during his March 2006 visit.

Comment

¶12. (C) Though still highly partisan in his overall approach to Chen Shui-bian, Ma seems to have resolved to support a significant plus-up of this year's defense spending. That said, his unproven leadership skills will be tested by members of his fractious pan-blue coalition, especially in light of ongoing attempts to bring down the Chen presidency.
YOUNG